# REVENUE CHAPTER

## Revenue Overview

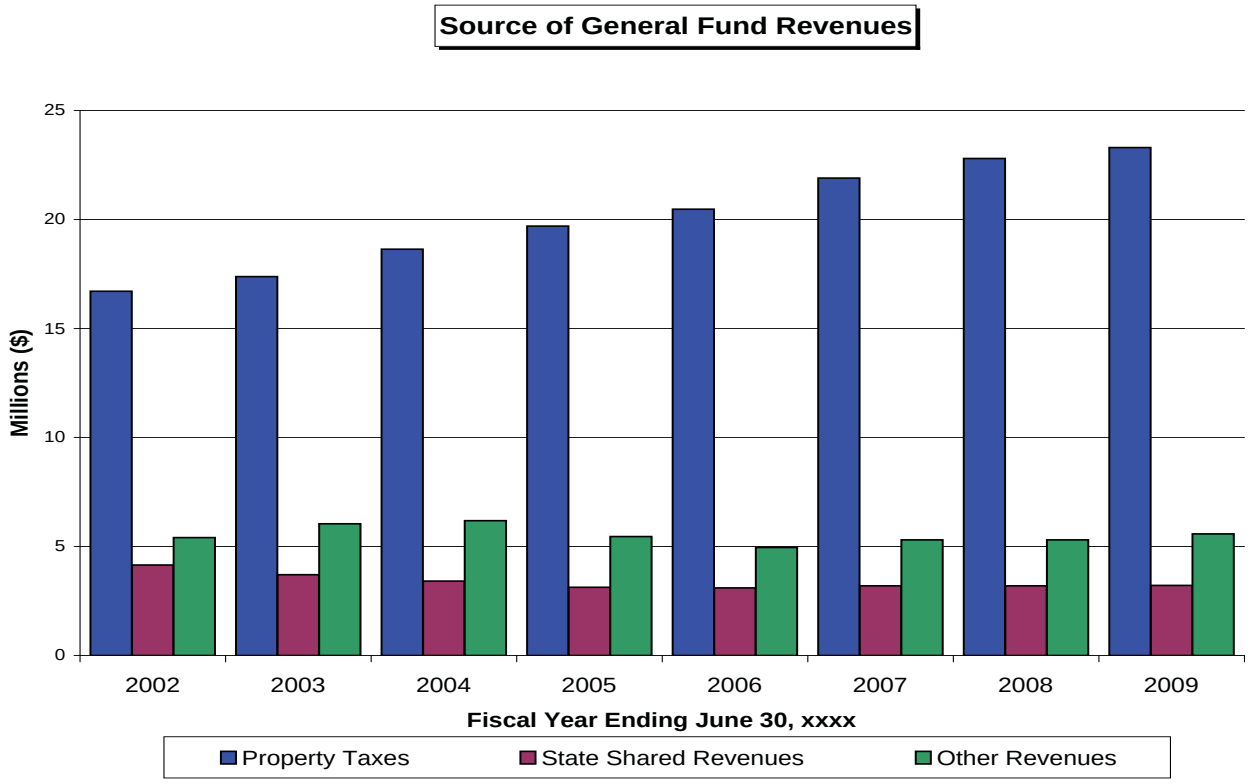
General Fund Revenues are budgeted at $32.9 million for the FY 2008-09. This represents an increase of $400,500, or 1.2 % over FY 2007-08 Amended Budget Revenues.

Factoring in the impact of the current inflation rate of 2.5%, General Fund Revenues are down 1.3%. Designated Fund Balance in the amount of $805,000 is used as a revenue source to support this year's expenditure budget. A full discussion of fund balance is included later in this Chapter.

## Base Budget Revenue Changes

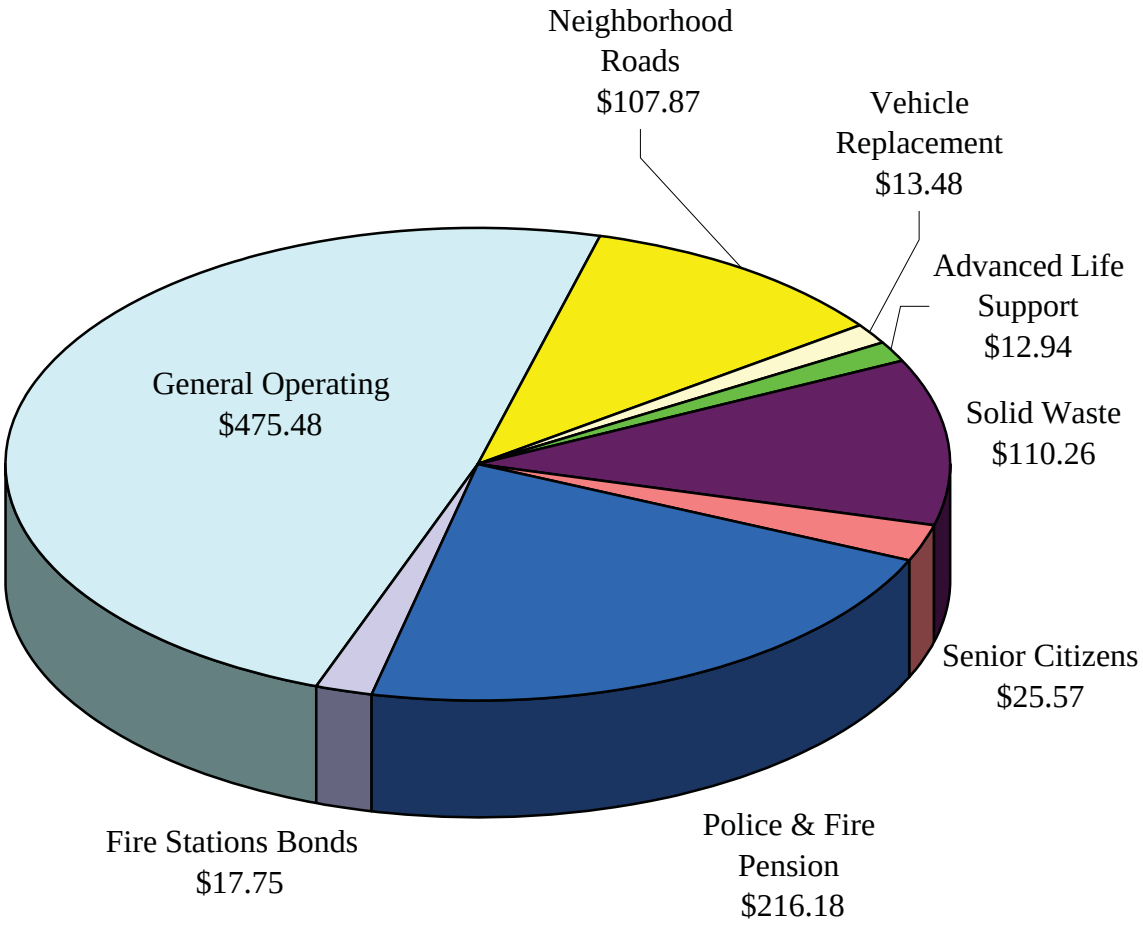
The composition of General Fund Revenues continued to shift away from State Shared Revenues and toward a greater reliance on Property Taxes in comparison to prior years. The principal sources of General Fund Revenue include; Property Taxes, $23.3 million (71% of total General Fund Revenues); State Shared Revenues, $3.2 million (10%); Court related revenues, $1.7 million (5%); Charges to Other Funds, $1.0 million (3%); Interest Income, $544,000 (2%), Construction Permits, $430,000 (1%); Ambulance Rescue Insurance Reimbursement, $407,000 (1%); Cable Television Fees, $335,000 (1%), and other governmental revenues $1.9 (6%).

Property tax revenues can be divided into three categories: Real Property Tax ($19.3 million); Personal Property Tax, ($2.6 million); and Tax Abatements, Penalties, Interest, Delinquent Taxes and Administration Fees ($1.4 million).



**Average City Taxes Paid - FY 2008-09**
**Based on Average Home Market Value of $128,088**
**(Taxable Value of $53,934)**

**Total of $979.53**




Approximately 51% of the City's taxes are restricted for specific purposes.

**Property Tax Revenues**

The rates displayed below are within the Charter limitations and the Headlee rollback limits. The FY 2008-09 combined City tax rate of 18.1616 mills per thousand dollars of State taxable valuation is broken down as follows:

DOLLARS PER $1,000 OF TAXABLE VALUE *

| | Tax Rate 2008-09 | Tax Rate 2007-08 | Tax Rate Limits ** | Headlee Tax Limits ** |
|---|---|---|---|---|
| Operating Millages: | | | | |
| General Operating | 8.8160 | 8.8160 | 10.0000 | 8.8190 |
| Neighborhood Road Improvements | 2.0000 | 2.0000 | 2.0000 | 2.0000 |
| Vehicle Replacement | 0.2500 | 0.2500 | 0.2500 | 0.2500 |
| Advanced Life Support | 0.2400 | 0.2400 | 0.2500 | 0.2407 |
| Solid Waste | 2.0443 | 2.0811 | 3.0000 | 2.6457 |
| Senior Citizens | 0.4740 | 0.4740 | 0.5000 | 0.4751 |
| Police & Fire Pension | 4.0082 | 3.8522 | as needed | as needed |
| Fire Stations Bond | 0.3291 | 0.3279 | as needed | as needed |
| Total Millage | 18.1616 | 18.0412 | | |

*Michigan taxable value begins at 50 percent of the property's fair market value in the year following the date of transfer as adjusted for inflation in accordance with Proposal A of 1994, which limits future assessment increases to 5 percent or the rate of inflation, whichever is lower, for each individual property.

**Tax rate limits as established by the City Charter and various State laws. These limits are further subject to potential reduction as a result of the Headlee State Constitutional Amendment, which limits property tax increases related to the rate of inflation and Proposal "A" approved by State voters on March 15, 1994.

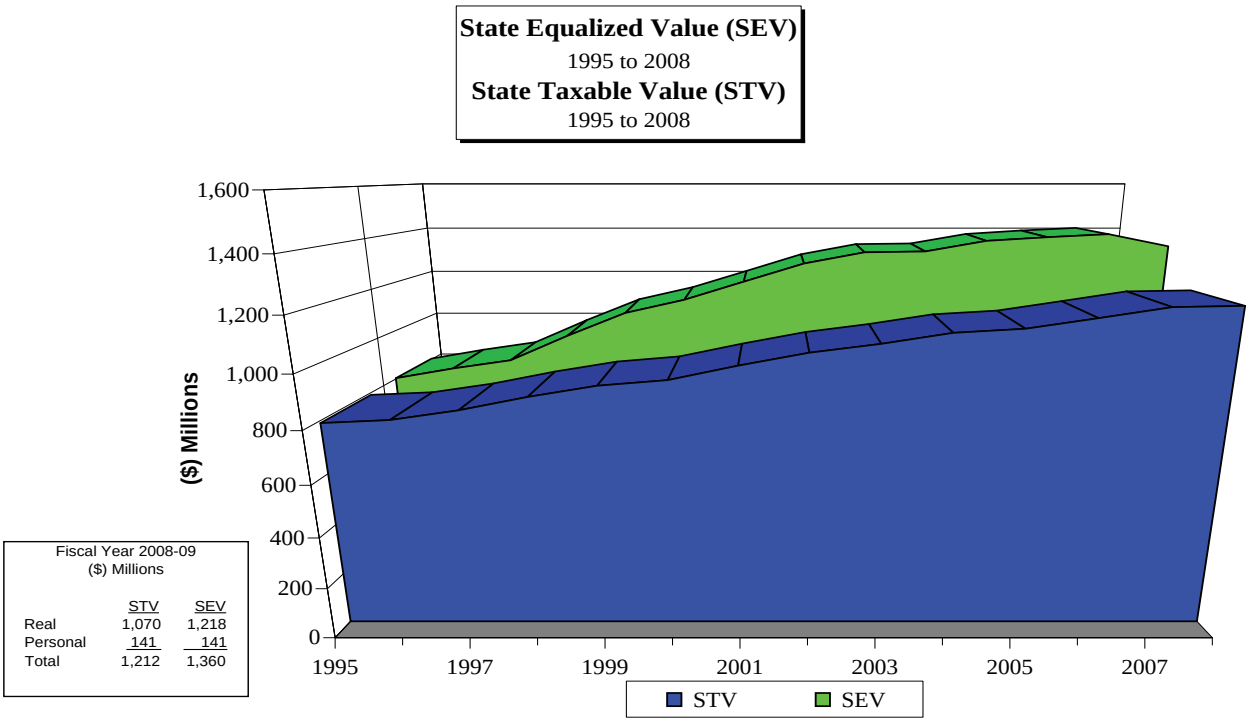
Only three of the eight millages experienced a rate change for 2008-09. The Solid Waste millage decreased 0.368 or two-tenths of one percent. The Police and Fire Pension millage increased 0.156 of a mill or 4 percent. The increase in the millage is due to the higher (11%) medical premiums for current police and fire retirees. The Fire Stations Bond millage was adjusted to match the bond payment schedule.

In Michigan, property is assessed at one-half of the market value and taxed at a taxable value, which is the prior year's taxable value plus five percent or the cost of living increase, whichever is less. There are 10,067 single-family homes and condominiums in Madison Heights. The average home market value is $128,088 (State Equalized Value is $64,044) with a taxable value of $53,934 and an average tax bill of $980 for City services for Fiscal Year 2008-09.

## Property Tax Base

The table below illustrates the growth in the State equalized value over the last thirteen years based on the type of property. The property tax base for the General Fund is quite diversified. The major components of the General Fund Property Tax Revenue are single unit residential/condominiums (46%), commercial (23%), industrial (20%) and personal property (11%).

This chart also illustrates the gap between equalized and taxable value. In FY 2008-09 the overall taxable value increased only four-tenths of a percent with equalized value decreasing 3.4%. It is anticipated that at least for the next few years the equalized value will continue to decrease. As the overall gap between taxable values and equalized values closes and more individual properties' equalized values match taxable values, this will negatively impact the amount of tax revenue available to support City services will decrease.




Taxable property consists of 88% real (land and building) and 12% personal (equipment and fixtures).

The State Tax Commission implemented revised Personal Property Tax valuation tables effective with the FY 2000-01 Budget. Assessors and Equalization Directors concluded that although the tables did produce revenue losses, they were not an unreasonable reflection of market value conditions (with the exception of gas and electric transmission and distribution property). In Madison Heights, the new tables resulted in a 6% reduction or a $170,000 annual decrease in Personal Property Tax revenues in 2001. The new valuation multipliers continue to reduce personal property valuations on an accelerated basis when contrasted with pre-2001 tables.

A revision in the personal property accounting methods, which correctly and more accurately tabulate "Headlee" Additions and Losses, continues to have a positive revenue effect on millage rates. The millage calculation process now recognizes the diminution of value of personal property as it ages as a form of depreciation and provides an offset to real property appreciation (including uncapped value increments after property transfers), thus minimizing or eliminating future millage reductions.

## State Shared Revenues

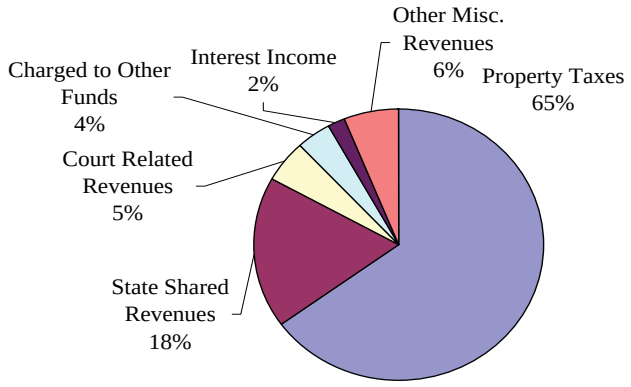
The City's second largest source of General Fund Revenue is State Shared Revenues, which amount to $3.2 million or 9.8% of the Budget. Budgeted State Shared Revenues are projected to be flat since the State's Governor and Legislature continue to delay actions on setting funding priorities for the future. The major components of State Shared Revenues are the Constitutional Sales Tax ($2.1 million) and Statutory Sales Tax ($965,000).

State Shared Revenues are taxes collected by State government and then transferred back to local municipalities based on the State Constitution and State statutes. Public Act 532 of 1998, approved by a lame duck legislature in December of 1998, established a new revenue sharing formula. The formula was being phased in at an additional 10% per year over a ten-year period starting in FY 1998-99. The new formula contained three equally weighted components: one based on taxable value per capita, one based on population weighted according to size and type of government, and one based on a guaranteed yield per locally levied mill, up to 20 mills.

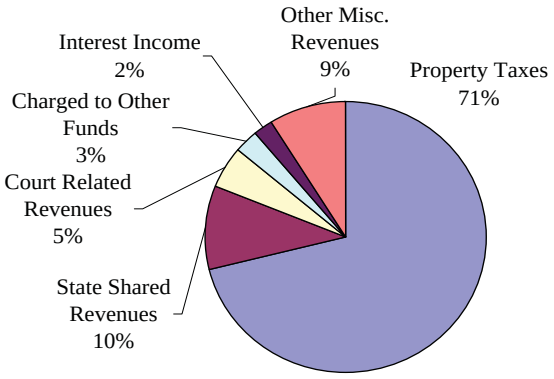
Public Act 532 eliminated inventory reimbursements. Increases in total payments are capped at no more than 8% per year; any amount above the growth cap is redistributed to the no-growth or low-growth communities. The new Revenue Sharing formula is impacted by a community's population in all three of its' components. Therefore, the drop in Madison Heights' population as shown in 2000 Census has had a negative impact on revenues.

Based on projections of the impact of the new formula, any community that grew at less than the average for the State of Michigan or under four percent received a reduction in revenue sharing payments for the State's fiscal year. Given that the City's fiscal year does not coincide with the State's fiscal year, the initial negative impact of the new formula was spread over two years (FY 2000-01 and FY 2001-02). For the last seven years, the State has systematically frozen or cut Statutory Shared Revenues at most every opportunity.

**Major Revenues in FY 2000-01**




**Major Revenues in FY 2008-09**




As you can see from the pie charts shown above, in FY 2000-01 State Shared Revenues made up 18% of the General Fund Revenues, in FY 2008-09 they are only 10% of the total.

Technically this revenue sharing formula expired on September 30, 2007 however in October 2007 the State budget appropriated revenue sharing at fiscal year 2006-07 levels. While no formal action has been taken yet to extend the revenue sharing act, it is the generally understood intent of the Legislature to do so. This is based upon the budget that was adopted for FY 2007-08 and the Governor's budget proposal for FY 2008-09. Formal action will be required by the Legislature in order to continue to extend the revenue sharing formula.

The Governor's Proposed FY 2008-09 Budget recommends a small increase in overall Revenue Sharing payments from the FY 2007-08 level. Since the Governor's proposal comes early in the State budgeting process and due to the uncertainty of the future of revenue sharing has been budgeted to be held flat again in FY 2008-09. Since July 2000, Madison Heights' Statutory State Shared Revenues have been cut $1.2 million from $2,098,100 to $965,000 or 54%.

The City is also reimbursed for a portion of the District Court Judge's salary, liquor license enforcement, Police training activities, penal fines dedicated to library services and miscellaneous court costs.

**Other Revenues**

The third largest source of General Fund Revenue is composed of Court fines, forfeits, and charges ($1.7 million), which are used to offset the cost of operating our State-mandated District Court. The Budget forecasts a $124,000 decrease (6.9%) in Court related revenues.

A fourth significant revenue is departmental charges, which is budgeted at $1.0 million. These revenues are based on charges to the Major Street ($124,000); Local Street ($198,000); and Water and Sewer ($666,000) Funds, based on equipment, facilities and manpower costs incurred by the General Fund to support their operations.

A fifth major source of revenue is interest income, which is budgeted at $544,000 for FY 2008-09. The significant 18% decrease in interest income is due to the recent cuts in the interest rates by the Federal Reserve. In January the Federal Reserve cut federal fund rates from 5.25% to 2.25% marking the biggest reduction since 1990. This cut in rates negatively impacts the interest rate the City can earn on invested funds.

A sixth group of revenue sources provides between $100,000 and $500,000 in annual funding. This category is not as important to the overall budget as those already mentioned earlier, but represents a significant source of revenue. These revenues include business and non-business licenses, permits and fees, charges for service, recreation and senior center user fees, cable television franchise fees, telecommunication right-of-way fees and ambulance charges.

Revenue categories amounting to less than $100,000 annually include payments in lieu of taxes, penal fines from the County, State transportation credits, sales of goods, non-recreation user charges, auto pound, police service fees and fixed asset sales.

## Revenue Adjustments

The City continues to monitor and review its charges and fees to determine the relationship of the City's cost of providing these services. Other than the ambulance charges and the mobile home refuse collection fee, no significant changes are planned for FY 2008-09.

The current ambulance transportation rates have been in effect since July 2005. Over the last three years, there have been significant increases in personnel and medical supply costs. Information from our ambulance billing company, AccuMed Billing Inc., indicates that the major insurance companies are allowing payments for amounts higher than the City is currently billing. As a result, the Fire Chief is recommending the following increases: Advance Life Support Transport from $525 to $600; Basic Life Support Transport from $325 to $375; Mileage Charge from $7.00 to $8.50; Oxygen Charge from $40 to $45; and Defibrillation at a new charge of $50. As a result of these rate increases and projected ambulance run volumes, the department will net an additional $57,000, bringing the total projected annual ambulance revenue to $407,000.

To keep pace with rising costs, the staff has proposed increasing the mobile home park refuse collection fee from $5 to $6 per unit per month. The higher fee will generate $5,600 in additional revenue, resulting in $33,700 for the City's 468 units that pay no property tax.

## Revenue Assumptions

- State Shared Revenues - Tax preliminary figures provided by the State of Michigan Department of Treasury.
- Licenses and Permits – Fees set by City Council; based on activity projected by the Community Development Director for occupational and non-business licenses; and City Clerk for business licenses and permits.
- Charges From Other Departments – Consultant's cost allocation plan.
- Interest Income - A conservative 4% return was assumed.
- Gas & Weight Tax - Office of Revenue and Tax Analysis, Department of Treasury, a 8% reduction was assumed.
- Section 8 Housing Grant - Department of Housing and Urban Development (HUD), total allowable rental units per contracts with HUD calculated at fair market rents.
- Water Sales and Sewage Disposal - Prior 12 months water usage assuming 0.6% decrease in the unit cost.
- Special Assessment Collections – Revenues are estimated based on the projected July 1st billings.

## OTHER MAJOR FUNDS

### Major Street Fund

The largest source of Major Street revenues at $1.2 million is derived from Gas and Weight taxes collected by the State of Michigan. These taxes are distributed to local municipalities based on miles of roads. Gas and Weight tax revenues comprise 72% of Major Street revenues. Other revenues include reimbursements from the Road Commission of Oakland and Macomb Counties for winter and summer maintenance by the City on County roads and berm areas (4%), interest income (1%), transfers in from Special Assessment Districts of $288,000 for industrial road sidewalks (17%), contributions by Oakland County of $100,000 for Twelve Mile freeway underpass sidewalk (6%). The projected contribution to fund balance for FY 2008-09 is $529,000.

### Local Street Fund

Prior to 1996, the primary source of revenue for the Local Street Fund had been from State distributions of Gas and Weight tax. These State distributions, estimated to be $458,000 only provided enough funding to perform minor road repairs and maintenance. In an effort to raise revenues for more extensive and much needed repairs and rehabilitation, the voters approved a ten year dedicated road millage of two mills in August 2006. This millage will provide $2.4 million in FY 2008-09 and an estimated $27.4 million over the ten-year period, which will be used exclusively for the repair and reconstruction of residential streets and rights-of-way. Other revenues include interest income, $245,000; and two transfers from the Special Assessing Revolving Fund, one for the repayment of prior years' projects, $94,000, and one for the FY 2008-09 sealcoat neighborhood road reconstruction project of $211,000. The projected use of fund balance for FY 2008-09 is $1.1 million.

### Parks Maintenance and Improvement Fund

The Parks Maintenance and Improvement Fund was established with a November 2007 one-time payment of $850,000 from the George W. Drainage District, in exchange for the City's agreement to assume responsibility for the operation and upkeep of the new 10 acre Red Oaks Soccer Complex. The projected revenues for the budget year include $36,000 in interest income from the investment of the original payment. The revenues and accumulated funds can be used for any Madison Heights park system improvement.

### Downtown Development Authority Fund

Funding for the Downtown Development Authority is derived exclusively from the growth (increment) in real and personal property tax above the 1997 base year for those properties located in the District. Tax revenues have increased 7% over last year to $243,000.

Drug Forfeiture Fund

The Fund is used to account for revenues (FY 2008-09, $58,000) generated by the Madison Heights Police Department through drug forfeitures related to enforcement of drug laws pursuant to Public Act 251 of 1982.

Community Improvement Fund

All Community Improvement revenues are provided by the Federal Housing and Urban Development (HUD) Department. There are two types of funding provided by HUD. The first is through the Community Development Block Grant (CDBG) program ($121,000 for FY 2008-09). This program, administered by Oakland County, provides for 100 percent reimbursement for expenditures that aid low-moderate income areas. This reimbursement is limited to the amount of available Federal funding which has declined substantially in recent years. The second classification of revenue is provided through the Section 8 Housing Grant Program ($1.8 million for FY 2008-09). This program provides funding for rental housing assistance to low-moderate income families.

Special Assessment Revolving Fund

Revenues to this Fund include principal and interest payments from prior years' road and sidewalk projects ($363,000). Other revenues include interest earned on fund balance ($40,000) and a loan ($211,000 for FY 2008-09) of funds from the Local Street Fund for the special assessment portions of Neighborhood Roads. These assessments will be repaid as the 15 year special assessment payments are made by the property owners.

Fire Stations Bond/Debt Service Funds

These funds account for the construction activities related to the $5.9 million 2003 Fire Stations Bond project and the repayment of the debt associated with this project. The dedicated millage will generate $395,000 this year to make principal and interest payments.

Water and Sewer Fund

Water and Sewer Fund revenues are generated through user charges to residential and commercial customers based on water usage. Revenues from water and sewer user charges comprise 43% and 55% respectively of the revenues of this fund. The next largest revenue sources are generated through use of retained earnings (1%). The remaining revenues are derived from meter charges, service charges, tap fees, interest on investments and building rental charges.

Based on the analysis by the Finance Department of the Water and Sewer Fund Retained Earnings and projected revenues and expenditures, projected George W. Kuhn Debt Service and Detroit Water and Sewerage Department and Oakland County Drain Commission charges, water and sewer rates will be increased 3.5% this year.

Motor Pool and Equipment Fund

Revenues of the Motor Pool and Equipment Fund are provided exclusively through contributions from departments of the General Fund ($996,000) and Water and Sewer Fund ($131,000). The amount contributed by each department is based on the cost incurred by the Motor Pool in maintaining the department's vehicles.

## FUND BALANCE

In Madison Heights, the General Fund Fund Balance consists of designations for various purposes amounting in total to $6.3 million. The following table reflects the audited Fund Balance for the years ended June 30, 2006 and 2007:

| FUND BALANCE | ACTUAL FY 2006-07 | ACTUAL FY 2007-08 | CHANGE FY 06-07 vs 07-08 |
|---|---|---|---|
| Unreserved: | | | |
| Designated: | | | |
| Vested Employee Benefits | $2,333,329 | $2,557,926 | $ 224,597 |
| Retirees' Health Benefits | 577,530 | 778,165 | 200,635 |
| Retained Insurance Risks | 663,135 | 500,000 | (163,135) |
| Vehicle Replacement | 1,136,029 | 1,136,030 | 0 |
| Capital Improvements | 600,000 | 500,000 | (100,000) |
| Park Improvements | 300,000 | 500,000 | 200,000 |
| Technology Improvements | 200,000 | 200,000 | 0 |
| Subsequent Year's Expenditures | 437,611 | 144,636 | (292,975) |
| Total Designated | $6,247,634 | $6,316,757 | $69,123 |
| Undesignated | 0 | 0 | 0 |
| Total Fund Balance | $6,247,634 | $6,316,757 | $ 69,123 |

Designated Funds

Designated Fund Balance falls into eight categories: funds designated for vested employee benefits; retirees' health benefits; retained insurance risks; vehicle replacement; capital improvements, park improvements, technology improvements and subsequent year's expenditures.

The designation for employee benefits was established to provide a reserve for unused sick leave and vacation benefit liabilities not funded elsewhere. These funds would be required to meet the commitments, which change over time based on employee retirements, leave accrual and utilization rates. This designation was set based on audited records at $2.6 million last year and makes up 40% of the Designated Fund Balance.

In April 2004, the Governmental Accounting Standards Board (GASB) issued new regulations for the purpose of improving disclosure for liabilities associated with future retiree health care cost,

similar to the existing pension obligation disclosure requirements. Based on these guidelines, the City was required to disclose on or before July 1, 2007 statistics on our liabilities and what City contributions are to fund these liabilities over the following 30 years. Based on a special actuarial study, the City's liability was calculated at $59.2 million. On June 30, 2007, $778,000 in fund balance was set aside as one step to address this issue.

In 1987, the City started setting aside a portion of its Fund Balance for possible contingencies related to self-insurance losses. Based on the current level of exposure and litigation, this reserve was recently decreased from $663,000 to $500,000.

With the decreases in revenue sharing and increasing prices, the general maintenance and upkeep of City facilities has become a heavy burden to support and in some situations has been deferred for many years. On June 30, 2007, the City acknowledged responsibility and established designations for capital improvements ($500,000), park improvements ($500,000) and technology improvements ($200,000). In the FY 2008-09 Budget, $805,000 is being allocated from designated fund balance for costly repairs. This includes a $375,000 allocation from the Capital Improvement designation for City Hall roof replacement ($210,000), handicap entry door replacements on the west end of City Hall ($12,000), automatic sliding doors on the north and south entrances of City Hall ($28,000), a fire suppression system at the Senior Center ($100,000) and loading ramp renovation at the Court ($25,000). An allocation of the designated fund balance for technology improvements is also included to upgrade the computer cabling at City Hall ($60,000) and an allocation from the Parks Designation ($300,000) for projects at Civic Center Park, Rosie's Park, Suarez Woods and Red Oaks Pathway. Details on these expenditures can be found in the department pages or in the Capital Outlay section.

To achieve a long-range goal of the City's financial policies and to ensure the timely replacement of vehicles as scheduled in the Fifteen Year Vehicle Replacement Plan, a dedicated source of funding was established through the motor pool charge in FY 1998-99. The monies added to the "Sinking Fund" account through an annual appropriation were the amount needed to replace that vehicle when scheduled for replacement. As of June 30, 2004, the designation for vehicle replacement stood at $1.1 million. In light of the funding constraints, the annual appropriation was discontinued in FY 2003-04. A total of $70,000 is program from designated funds to replace one administrative vehicle, one utility maintenance cart, two mowers and a trailer.

The City has also followed the sound practice of designating funds for budgeted purchases and projects that cannot be accomplished by the end of any given fiscal year. This method of carrying forward monies could be used to retain appropriations on large equipment purchases or construction projects budgeted, but not bid or completed prior to the end of a fiscal year. This financial tool is used to pull together all those significant items outstanding, but not acted upon by the end of a budget year. On June 30, 2007, those carry-forward purchase designated funds ($144,000) made up 2% of the Designated Fund Balance.

Undesignated Funds

Undesignated Fund Balance is that portion of the fund balance not specifically designated for a specific purpose. Due to the current financial constraints, all of the Fund Balance is designated for specific purposes.

Changes in Fund Balance

A total of $805,000 of the Designated Fund Balance has been programmed to support the budget including: $375,000 from the designation for capital improvements, $60,000 from the designation for technology improvements, $300,000 from the designation for park improvements, and $70,000 from the designation for vehicle replacement. It is preferable to not only fund current operations and related expenditures with current revenues, but also add to (increase) fund balance over time.

**ALL FUNDS SUMMARY**
**CHANGES IN PROJECTED**
**FUND BALANCE/RETAINED EARNINGS**
**FISCAL YEAR 2008-09**

| Fund | Beginning Balance | Revenues | Expenditures | Ending Balance | Percent Change In Fund Balance |
|---|---|---|---|---|---|
| General Fund | $ 5,904,948 | $ 32,084,335 | $ 32,892,354 | $ 5,096,929 | (13.7) |
| Major Street (1) | 785,806 | 1,712,717 | 2,241,706 | 256,817 | (67.3) |
| Local Street (2) | 6,433,813 | 3,409,693 | 4,462,680 | 5,380,826 | (16.4) |
| Parks Maintenance and Improvements | 871,000 | 36,000 | 7,763 | 899,237 | 3.2 |
| Downtown Development Authority (3) | 102,032 | 261,689 | 306,389 | 57,332 | (43.8) |
| Police Drug Forfeiture (4) | 109,465 | 62,000 | 134,000 | 37,465 | (65.8) |
| Community Improvement Program | 0 | 1,896,701 | 1,896,701 | 0 | 0 |
| Special Assessment Revolving (5) | 949,540 | 614,381 | 1,204,761 | 359,160 | (62.2) |
| Fire Stations Bond Fund | 32,711 | 397,173 | 397,173 | 32,711 | 0 |
| Water and Sewer Fund (6) | 1,255,962 | 9,232,883 | 9,402,868 | 1,085,977 | (13.5) |
| Motor Pool and Equipment Fund | 0 | 1,126,708 | 1,126,708 | 0 | 0 |
| Total | $ 16,445,277 | $ 50,834,280 | $ 54,073,103 | $ 13,206,454 | (19.7) |

The chart above depicts the estimated budgeted fund balance at July 1, 2008, the budgeted revenues and expenditures for FY 2008-09 and the projected ending fund balance at June 30, 2009.

(1) The Major Street Fund use of fund balance will be used to fund major construction projects.

(2) The Local Street Fund use of fund balance is a result of Proposal “R” expenditures exceeding revenues in FY 2008-09. The majority of fund balance is being used for future Proposal ‘R” projects.

(3) The Downtown Development Authority use of fund balance is a result of planned expenditures for projects that will enhance the Downtown Development District.

(4) The Police Drug Forfeiture Fund use of fund balance is a result of higher expenditures in FY 2008-09. This fund balance is being utilized to purchase equipment to combat drugs.

(5) The Special Assessment Revolving Fund use of fund balance will be used to pay the up front costs associated with the Sidewalk Replacement and Local Street Fund projects.

(6) The Water and Sewer use of retained earnings of $170,000 is necessitated to provide funding for construction projects including critical watermain replacements and the sewer rerouting.

MADISON HEIGHTS

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CITY OF PROGRESS